

**Effectiveness and Costs of the  
Civilian Separation Incentive Program  
for Fiscal Year 1997**

**Department of Defense**

**September 1998**

# **Effectiveness and Costs of the Civilian Separation Incentive Program in the Department of Defense for Fiscal Year 1997**

## **BACKGROUND**

With the conclusion of the Cold War, U.S. defense policy and modernization planning has emphasized reengineering and streamlining the Department. This effort focused on the reduction of military and civilian resources as new efficiencies were realized and new technologies employed. Originally, the Department of Defense (DoD) programmed to eliminate over one third of its 1.1 million civil service positions. To assist in the planned drawdown, the National Defense Authorization Act for Fiscal Year 1993 (Sec. 4436) authorized DoD to provide financial incentives for individuals to leave the workforce. The Act's Conference Report required a report on the use of this authority for Fiscal Year (FY) 1993. DoD submitted the first report in March 1994.

Since then, the report requirement has been codified in 5 U.S.C., 5597(c), and the Department has submitted a similar report each year detailing the program's costs, its savings, and the effect of separation incentives on employment levels. This document provides the required information for FY 1997.

## **BUYOUT OVERVIEW**

The Voluntary Separation Incentive Pay (VSIP) or Buyout Program is a tool aimed at inducing turnover in surplus areas without creating the cost and dislocation of formal reductions in force (RIFs). The buyout is not an entitlement. Rather, it is a management tool designed to maximize worksite stability while achieving necessary reductions at minimal cost.

Within DoD, buyouts are targeted to employees whose separation will further management's reduction goals. Buyout recipients occupy either surplus positions or positions that can be used to place other employees who occupy surplus positions. Employees who desire to leave their employment are allowed to go while employees who might otherwise lose their jobs are retained. In this manner, an activity can retain its highly motivated and skilled workforce despite downsizing. Absent buyouts, RIFs result in considerable dislocation because some employees are separated while many more are downgraded because of "bump and retreat" procedures. This process can be very costly in dollars, morale, and skills match. DoD's findings in this area have been supported by research conducted by the General Accounting Office and reported in its publication, *Federal Downsizing: The Costs and Savings of Buyouts Versus Reductions-in-Force (B-265774)*. Under RIF, management has no role beyond identifying the positions to be abolished, but then must meet mission goals with a less-than-ideal workforce. Buyouts, however, offer management and employees significant and

direct control over the downsizing, especially when applied across a broad range of employee situations in order to effect optional retirements, early retirements, and voluntary resignations.

All buyouts within DoD are offered in conjunction with workforce reductions. Most are offered within a downsizing activity to reduce its own workforce. However, the Department also offers buyouts to employees at activities unaffected by downsizing directly so that the resulting vacancies can be used to place employees who are facing separation at another location. This expanded use of buyouts allows us to use the program on a DoD-wide basis rather than limiting it to downsizing activities. Application of buyouts in this manner is critical to avoiding involuntary separations at closure sites since the latter have no buyout candidates whose departure could result in the retention of another employee. Likewise, this use of the VSIP Program is helpful to activities hit particularly hard by downsizing. Participants in the expanded-use program are identified through the DoD Priority Placement Program. Since its inception, almost 4,000 employees have been placed using the expanded program.

### **FISCAL YEAR 1997 RESULTS**

In Fiscal Year 1997, the Department reduced its overall civil service employment by about 39,000, leaving a total of 774,000 civilians<sup>1</sup> at the end of the year. These reductions included only 3,412 involuntary separations of permanent employees. Our use of almost 15,000 separation incentives was instrumental in avoiding further RIF losses. Of the buyouts, nearly 42 percent induced individuals to take early retirement, roughly 43 percent went to people who were eligible for optional retirement, and 16 percent went to ones that resigned. Usage varied across the Defense Components because of differences in drawdown plans and base closure schedules. Table 1 depicts VSIP use by Component and type for FY 1997.

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**Table 1**  
**FY 1997 CIVILIAN SEPARATION INCENTIVES BY TYPE AND COMPONENT**

	<b>Optional Retirement</b>	<b>Early Retirement</b>	<b>Resignation</b>	<b>Total</b>
<b>Army</b>	2,407	2,072	846	5,325
<b>Navy</b>	2,257	2,704	887	5,848
<b>Air Force</b>	536	408	149	1,093
<b>Other DoD</b>	1,064	923	414	2,401
<b>Total</b>	6,264	6,107	2,296	14,667
<b>Percent</b>	42.7%	41.6%	15.6%	

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<sup>1</sup> Includes U.S. and foreign national employees, excludes civil functions and non-appropriated fund workers.

## **DEMOGRAPHIC CHARACTERISTICS**

Because incentives are targeted at surplus occupations and areas, they are not distributed evenly across the Department's workforce. Information on Fiscal Years 1993-1997 can be found in attachment 1. Highlights of the FY 1997 distribution include the following:

- Blue-collar workers accounted for 31 percent of VSIP takers, about the same as each year except FY 1993 when they accounted for 39 percent. Blue-collar employees represented only about 25 percent of the workforce at the beginning of FY 1997.
- Although women represent almost 38 percent of DoD's overall workforce, they accounted for only 32 percent of the VSIP takers in FY 1997. The disparity is attributable to below-average representation of women in the blue-collar workforce (where the relative rate of usage remains high) and their comparatively high representation in clerical and support positions, where normal turnover is fairly high. In FY 1997, women accounted for 32 percent of those receiving buyouts for early retirement but only 27 percent of those receiving buyouts for optional retirement.
- Minority employees accounted for 27 percent of the buyouts. This level of participation is directly proportional to minority representation in the workforce.
- Historically, over 92 percent of incentive takers are 41 years of age or older. Interestingly, in FY 1996, there was a drop in the percentage of incentive takers in the 61 or older age group, but there was a corresponding increase in the 41-50 category. During FY 1997, the percentages of incentive takers by age group returned to historical levels.
- The grade level distribution of incentive takers generally mirrors that of all DoD employees.
- Employees of the Department who are veterans have taken maximum advantage of incentive payments. Since program inception, veterans have accounted for more than half of the incentive takers. Of the incentives paid during FY 1997, veterans received about half. (The table at attachment 2 provides information on veterans who received incentive payments since FY 1994.)

## **EFFECTIVENESS**

Our success in averting layoffs was once again apparent during FY 1997. Involuntary separations of permanent employees were held to a little less than 9 percent as opposed to 16 percent the year before. While separation incentives played a relatively smaller part in the downsizing process, incentive use continued to be an important element of our efforts to mitigate involuntary separations. To understand this, it is important to understand the overall success before examining the reason for the slight decline in incentive use. Table 2 demonstrates this success by comparing civilian reductions, total incentives by year and involuntary separations since FY 1994.

**Table 2**  
**ANNUAL REDUCTIONS, INCENTIVES, AND INVOLUNTARY SEPARATIONS**  
**FY94 – FY97**

<b>Fiscal Year</b>	<b>Total Reductions (rounded)</b>	<b><u>Incentives</u></b>		<b><u>Involuntary Separations</u><sup>2</sup></b>	
		<b>Number of Incentives</b>	<b>% of Total Reductions</b>	<b>Number of Separations</b>	<b>% of Total Reductions</b>
<b>FY94</b>	36,000	23,983	67%	4,932	14%
<b>FY95</b>	52,000	25,324	49%	4,628	9%
<b>FY96</b>	36,000	17,329	48%	5,844	16%
<b>FY97</b>	39,000	14,667	38%	3,412	9%
<b>Total</b>	163,000	81,303	50%	18,816	12%

Table 2 shows that reductions in the Department rose slightly to 39,000 for FY 1997. Nevertheless, incentives continued to account for a substantial number of these reductions, almost 40 percent. Since FY 1994, incentives have accounted for 50 percent of all reductions. During this same period, involuntary separations have been limited to 12 percent--a remarkable accomplishment considering the 163,000 reductions taken during that time.

Differing drawdown patterns across the Components and associated buyouts partially explain the relative decline in overall use of incentives and the level of involuntary separations. Table 3 indicates these patterns.

**Table 3**  
**CIVILIAN SEPARATION INCENTIVES BY YEAR AND COMPONENT**

	<b>FY94</b>	<b>FY95</b>	<b>FY96</b>	<b>FY97</b>	<b>Total</b>
<b>Army</b>	6,434	7,107	5,232	5,325	24,098
<b>Navy</b>	9,578	8,294	7,241	5,848	30,961
<b>Air Force</b>	3,075	5,624	1,221	1,093	11,013
<b>Other DoD</b>	4,896	4,299	3,635	2,401	15,231
<b>Total</b>	23,983	25,324	17,329	14,667	81,303

The biggest relative decline in incentive use during FY 1997 (from 3,635 in FY 1996 to 2,401 in FY 1997, a 34 percent drop) occurred in Other DoD (Defense Service Agencies,

<sup>2</sup> Includes separations of permanent employees only.

including the Defense Logistics Agency (DLA)). The other decline of consequence was in the Department of the Navy, where use of incentives during the year dropped to 5,848 from 7,241 the previous year (a 19 percent decline). This accounts for 99 percent of the Department's decline in incentive use and corresponds directly with a very high incidence of reductions at Base Realignment and Closure (BRAC) activities in DLA and in Navy. Indeed, virtually all of the DLA reductions during the year occurred at BRAC locations (mostly Defense Depot Ogden and Defense Depot Memphis) while 56 percent of the 16,000 reductions in the Department of Navy occurred at BRAC sites. As in FY 1996, BRAC actions continue to affect the overall use of incentives, and involuntary separations remain relatively high for those installations. Table 4 compares incentive use to involuntary separations for BRAC bases and the Department since FY 1994.

**Table 4**  
**DoD AND BRAC INCENTIVE PAYMENTS AND INVOLUNTARY**  
**SEPARATIONS COMPARED TO REDUCTIONS**  
**FY94-FY97**

Year	<u>Incentives</u>			<u>Involuntary Separations</u> <sup>3</sup>			Total Reductions Per Year (rounded)
	Total	BRAC	BRAC % Of Total	Total	BRAC	BRAC % Of Total	
<b>FY94</b>	23,983	5,735	24%	4,932	1,355	27%	36,000
<b>FY95</b>	25,324	5,464	22%	4,618	3,062	66%	52,000
<b>FY96</b>	17,329	3,476	20%	5,844	3,799	65%	36,000
<b>FY97</b>	14,667	2,931	20%	3,412	1,357	40%	39,000
<b>Total</b>	81,303	17,606	22%	18,806	9,573	51%	163,000

Incentive use for all BRAC locations proceeded at expected lower levels (roughly 20 percent of the Department's use) during FY 1997. Despite BRAC-related actions accounting for only 28 percent of the reductions taken, these reductions accounted for 46 percent of all involuntary separations during FY 1997. Clearly, while overall numbers of involuntary separations were reduced, BRAC-related separations continued to account for a proportionately higher share than those resulting from non-BRAC reductions. Other DoD and Navy accounted for 84 percent of the BRAC involuntary separations.

<sup>3</sup> Includes separations of permanent employees only.

Our assessment of this information supports a conclusion that the “closure phenomenon” associated with BRAC installations and identified in last year’s report has continued during FY 1997, but with a slightly lessened effect. This phenomenon results from closure sites using incentives on a phased basis. The installation implements a series of reduction actions over an extended period and uses incentives to mitigate the results. Over time, the incentives become less effective. Indeed, many employees prefer involuntary separation involving severance pay because they receive a greater amount than that offered as a buyout. Affected employees are registered in the DoD Priority Placement Program (PPP) and often placed at other installations before the closure is completed. During FY 1997, almost 1,800 PPP registrants were placed from closure sites to other installations. Employees who remained at those locations were separated by RIF, and vacant positions were abolished to achieve the overall reductions. Normally, involuntary separations would not only increase but would increase significantly as they did during FY 1996. Despite involuntary separations remaining relatively high at BRAC locations, the net result for FY 1997 was a reduced reliance on involuntary separations because of the integrated use of all drawdown tools and fewer BRAC reductions overall. Table 5 compares the overall reductions to BRAC-related reductions since FY 1991.

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**Table 5**  
**BRAC EMPLOYMENT REDUCTIONS COMPARED**  
**TO TOTAL REDUCTIONS**  
**FY91-FY97**

<b>Fiscal Year</b>	<b>Total Reductions (rounded)</b>	<b>BRAC Reductions (rounded)</b>	<b>BRAC % Of Total</b>
<b>FY91</b>	29,000	3,000	10%
<b>FY92</b>	38,000	5,000	13%
<b>FY93</b>	69,000	19,000	28%
<b>FY94</b>	36,000	19,000	53%
<b>FY95</b>	52,000	16,000	31%
<b>FY96</b>	36,000	34,000	94%
<b>FY97</b>	39,000	11,000	28%
<b>TOTAL</b>	299,000	107,000	36%

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Of the 28,000 non-BRAC reductions taken, approximately 12,000 were offset by buyouts, 6,900 by PPP placements and 655 by early retirements not associated with incentives. The balance of the reductions for FY 1997 was achieved through attrition and skills management.

## **COST**

During FY 1997, the average cost of a separation incentive paid within the Department was \$23,000. By DoD policy, this cost must be recouped within two years of payment. Savings are generated by removing the obligation to pay salaries and benefits of those separating and by avoiding administrative costs associated with RIF. The cost savings generated were documented in the previously cited United States General Accounting Office (GAO) report number B-265774.

The Department of Defense is dedicated to lowering non-essential costs; however, it is equally dedicated to minimizing disruption and downsizing humanely. Since FY 1993, we have used incentives to avoid 113,000 involuntary separations through the end of FY 1997. Separation incentives are simply the best available tool for meeting these objectives.

To manage imminent closure actions and additional downsizing effectively through FY 2003, the Department will need the reduction flexibility provided by incentives. The Air Logistics Centers at McClellan Air Force Base, Sacramento, CA, and Kelly Air Force Base, San Antonio, TX, initiated closure-related actions during FY 1997. These closures alone will affect over 20,000 DoD employees. As of the end of April 1998, another 68,000 positions must be reduced through other smaller closures and continued downsizing activity by FY 2003 in accordance with the President's budget. Should the recommendations of the Quadrennial Defense Review and the Defense Reform Initiative be fully implemented, total reductions could be higher during this period. To continue to meet challenges of this magnitude, the Department of Defense must retain its ability to encourage voluntary separations through the use of buyouts.

### **DATA SOURCE**

All data used in this report were provided by the Defense Manpower Data Center, Monterey, CA, except PPP placement data, which were provided by the Priority Placement Support Branch, Dayton, OH, DoD Civilian Personnel Management Service.

### **SUMMARY**

The disruptive and demoralizing effects of downsizing were avoided by the prudent use of separation incentives within the Department of Defense during FY 1997. Almost 15,000 affected employees enjoyed a "soft landing" provided by the buyout authority while almost 8,000 displaced employees were provided continuing employment through the Department's Priority Placement Program. These efforts combined with our experience in managing attrition and in balancing skill and mission requirements resulted in another successful year of downsizing activity, including a minimum of involuntary separations. Absent buyout authority, this would not have been the case. We anticipate that FY 1998 incentive usage will provide similar results.



**Characteristics of Optional Retirees Receiving Incentives**  
(percents)

	<b>FY 1993</b>	<b>FY 1994</b>	<b>FY 1995</b>	<b>FY 1996</b>	<b>FY 1997</b>
	(n=11,044)	(n=10,998)	(n=9,149)	(n=6,592)	(n=6,188)
White Collar	67%	75%	72%	74%	74%
Blue Collar	33%	25%	28%	26%	26%
Male	75%	72%	72%	74%	73%
Female	25%	28%	28%	26%	27%
Minority	23%	25%	21%	25%	26%
White	77%	75%	79%	75%	74%
Length of Service					
< 11 years	3%	4%	3%	5%	3%
11 to 20 years	22%	24%	26%	29%	32%
21 to 30 years	30%	28%	29%	28%	27%
> 30 years	46%	45%	41%	38%	38%
Age					
< 41 years	0%	0%	0%	0%	0%
41 to 50 years	0%	0%	0%	1%	1%
51 to 60 years	44%	40%	38%	51%	44%
> 60 years	56%	60%	62%	48%	56%
Grade					
GS-1 to -4	3%	4%	4%	3%	4%
GS-5 to -8	15%	16%	19%	16%	19%
GS-9 to -12	36%	37%	31%	34%	34%
GS/GM-13 and above*	12%	16%	16%	21%	15%
WG-1 to -5	3%	3%	5%	3%	4%
WG-6 to -9	11%	8%	8%	8%	9%
WG-10+	16%	10%	13%	12%	11%
Other	3%	7%	5%	4%	6%

\* Includes 40 SES members in FY 1995, 22 in FY 1996, and 4 in FY 1997.

notes: Detail may not add to 100% due to rounding.

Data are not available on about 4,000 of the total 32,000 incentive recipients in FY 1993.

source: Defense Manpower Data Center

**Characteristics of Early Retirees Receiving Incentives**  
(percents)

	<b>FY 1993</b>	<b>FY 1994</b>	<b>FY 1995</b>	<b>FY 1996</b>	<b>FY 1997</b>
	(n=11,501)	(n=8,279)	(n=9,846)	(n=7,182)	(n=6,033)
White Collar	53%	62%	60%	63%	61%
Blue Collar	47%	38%	40%	37%	39%
Male	72%	68%	68%	70%	68%
Female	28%	32%	32%	30%	32%
Minority	23%	26%	21%	23%	28%
White	77%	74%	79%	77%	72%
Length of Service					
< 11 years	0%	0%	0%	1%	0%
11 to 20 years	6%	8%	6%	11%	9%
21 to 30 years	73%	71%	74%	72%	71%
> 30 years	21%	21%	19%	17%	19%
Age					
< 41 years	0%	0%	0%	0%	0%
41 to 50 years	25%	24%	27%	37%	32%
51 to 60 years	72%	73%	71%	61%	66%
> 60 years	4%	3%	3%	2%	2%
Grade					
GS-1 to -4	2%	2%	3%	2%	2%
GS-5 to -8	13%	14%	17%	14%	17%
GS-9 to -12	30%	34%	30%	34%	30%
GS/GM-13 and above*	7%	11%	10%	12%	10%
WG-1 to -5	3%	3%	3%	3%	4%
WG-6 to -9	14%	10%	11%	9%	11%
WG-10+	23%	18%	21%	21%	18%
Other	6%	8%	6%	6%	8%

\*Includes 16 SES members in FY 1995 and 13 in FY 1996

notes: Detail may not add to 100% due to rounding.

Data are not available on about 4,000 of the total 32,000 incentive recipients in FY 1993.

source: Defense Manpower Data Center

**Characteristics of Resigning Employees Receiving Incentives**  
(percents)

	<b>FY 1993</b>	<b>FY 1994</b>	<b>FY 1995</b>	<b>FY 1996</b>	<b>FY 1997</b>
	(n=4,720)	(n=4,138)	(n=4,774)	(n=2,782)	(n=2,267)
White Collar	66%	67%	70%	71%	75%
Blue Collar	34%	33%	30%	29%	25%
Male	54%	56%	57%	57%	55%
Female	46%	44%	43%	43%	45%
Minority	24%	28%	23%	25%	28%
White	76%	72%	77%	75%	72%
Length of Service					
< 11 years	31%	34%	25%	38%	29%
11 to 20 years	60%	58%	53%	53%	58%
21 to 30 years	8%	8%	15%	8%	9%
> 30 years	1%	1%	6%	1%	3%
Age					
< 41 years	37%	44%	33%	44%	39%
41 to 50 years	32%	31%	30%	33%	33%
51 to 60 years	26%	21%	27%	21%	22%
> 60 years	5%	5%	10%	3%	6%
Grade					
GS-1 to -4	10%	7%	8%	7%	8%
GS-5 to -8	28%	25%	28%	27%	28%
GS-9 to -12	24%	29%	28%	30%	29%
GS/GM-13 and above*	3%	4%	6%	5%	6%
WG-1 to -5	7%	6%	6%	5%	6%
WG-6 to -9	12%	11%	11%	10%	8%
WG-10+	14%	14%	12%	13%	10%
Other	2%	5%	2%	4%	6%

\*Includes 1 SES member in FY 1995 and 1 in FY 1996

notes: Detail may not add to 100% due to rounding.

Data are not available on about 4,000 of the total 32,000 incentive recipients in FY 1993.

source: Defense Manpower Data Center

**Characteristics of All Employees Receiving Incentives**  
(percents)

	<b>FY 1993</b>	<b>FY 1994</b>	<b>FY 1995</b>	<b>FY 1996</b>	<b>FY 1997</b>
	(n=28,011)	(n=23,983)	(n=25,234)	(n=17,329)	(n=14,667)
White Collar	61%	69%	67%	70%	69%
Blue Collar	39%	31%	33%	30%	31%
Male	70%	68%	67%	69%	68%
Female	30%	32%	33%	31%	32%
Minority	23%	26%	21%	23%	27%
White	77%	74%	79%	77%	73%
Length of Service					
< 11 years	7%	8%	6%	9%	6%
11 to 20 years	22%	24%	23%	25%	27%
21 to 30 years	44%	40%	45%	44%	42%
> 30 years	27%	29%	26%	23%	25%
Age					
< 41 years	6%	8%	6%	7%	6%
41 to 50 years	16%	14%	17%	22%	19%
51 to 60 years	53%	48%	50%	51%	50%
> 60 years	25%	30%	27%	20%	26%
Grade					
GS-1 to -4	4%	4%	4%	3%	4%
GS-5 to -8	16%	17%	20%	17%	20%
GS-9 to -12	32%	34%	30%	34%	32%
GS/GM-13 and above*	8%	12%	11%	14%	11%
WG-1 to -5	4%	3%	4%	3%	4%
WG-6 to -9	13%	9%	10%	8%	10%
WG-10+	19%	14%	16%	15%	14%
Other	4%	7%	5%	6%	7%

\* Includes 57 SES members in FY 1995, 36 in FY 1996, and 4 in FY 1997.

notes: Detail may not add to 100% due to rounding.

Data are not available on about 4,000 of the total 32,000 incentive recipients in FY 1993.

source: Defense Manpower Data Center

**Veterans as a Percentage of  
All Separation Incentive Recipients  
FY94-FY97**

<u>Fiscal Year</u>	<u>Total Recipients</u>	<u>Recipients with Veterans' Employment Preference<sup>1</sup></u>	<u>Veterans as a Percentage of Total</u>
FY94	24,000	12,476	52.0%
FY95	25,000	12,747	50.9%
FY96	17,332	8,638	49.8%
FY97	<u>14,667</u>	<u>7,297</u>	49.8%
TOTAL	<u>80,999</u>	<u>41,158</u>	50.8%

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<sup>1</sup> All veterans' hiring preferences including that of spouses and survivors.